CENTRAL INTELLIGENCE AGENCY

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The following is an English translation of a German translation of an official Czechoslovak ministerial report concerning the present situation in Czechoslovak exports. While a large part of the report consists of theoretical considerations, the report begins with a detailed survey of Czechoslovak export possibilities and concludes with an application of the general principles to specific Czechoslovak industries. The applications are contained in an attachment which is added as an appendix to the present report. [redacted] Comment: The original meaning seems to become obscured in places as a result of two translations.) 25X1A

Confidential Ministerial Report on the Czechoslovak Export Situation

Prague, 10 May 1948

Difficulties in Selling Goods for Export

Goods for which no difficulties exist

Coal and coke: no export difficulties for the moment.

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Semi-manufactured products: [redacted] Comment: probably through oversight, there is no comment in the text).

Textile machinery: we are indeed somewhat more expensive, but the quality is good.

Goods for which export difficulties exist

Graphite: sales are influenced by the quality; our variety is not as good. The same applies to slate.

Semi-manufactured products and colored metal products: for copper and brass semi-manufactured products, our prices are about 15% higher; for aluminum, 25 to 50%; for zinc semi-manufactured products, 20 to 30%; for aluminum foil, 20 to 108% higher.

Tractors: we are the most expensive in Europe, with 30 to 40 % higher prices.

Agricultural machinery: prices are 20 to 30 % higher.

Motorcycles and bicycles: prices are 10 % higher.

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Shop machines and electric motors: these will have to be much cheaper than they sell for on the home market.

Automobiles: not even worth mentioning.

Radios: 40 % higher.

Sewing machines: 15 % higher.

Typewriters: 50 % higher.

Dental equipment: up to 50% higher.

Sport and hunting weapons: up to 60 % higher.

Diesel motors: we are in fact 10 to 25 % higher but still able to compete.

Metal furniture: up to 100 % higher.

Grain milling machines: our models are antiquated but more expensive.

Paper goods: no difficulties encountered, prices higher than for domestic market.

Paper: obtains the highest prices, very good quality.

Street rollers, cranes, excavators: 40 % higher.

Electrical equipment: about 25 % higher, long wait for delivery.

Stone crushers, cooling equipment, machines, narrow gauge locomotives, radio parts and receivers: 25 to 50 % higher.

Chairs: 20 to 25 % higher.

Toys: 20 to 35 % higher.

Wooden constructions: 20 % higher.

Smoking accessories: 30 % higher.

Celluloid and plastic goods: 30 % higher.

Pasteboard: 20 % higher.

Graphic papers: somewhat higher.

Leather gloves: sales encounter no price difficulties in Holland, Sweden and South Africa.

Leather gloves: it can be said in general that we are about 10 to 30 % higher as a result of saturation of the market, rise of the purchase tax (30 %) in England, and stagnation in the American market.

Leather fancy goods (Galanterie): we are 5 to 25 % higher, because of higher tariff and purchase tax. The margin between our selling prices and the American retail prices is 300 %, as a result of high duties and mark-ups by wholesaler and retailer.

Wallets and briefcases: 40 % higher.

Footwear: we are 10 to 30 % higher because of saturated markets and luxury taxes; nevertheless, we can still compete in rubber and leather shoes.

Leather shoe-welts: up to 30 % higher; fulfilment of orders is inadequate.

Textile leather equipment: we are 15 to 20 % higher; improvement in fulfilment of orders is necessary.

Transmission belts: 10 % higher; in many cases the price disparity plays an important role, but it could be removed, on the one hand by direct sale to the client, and on the other hand, by modernization of production.

Tires: bicycle tires, 15 to 30 % higher, with a long wait for delivery; automobile tires, 30 to 40 % higher because of high tariff, and in many cases still more expensive for particular sizes.

Pressure hoses: 25 % higher.

Autogen. Schläuche (autogenous welding tubes?): 20% higher.

Gas tubes: (Gasschläuche)20% higher.

Wheel accessories (Radzubehör): 25 % higher.

We are momentarily not able to compete in hoses (Schläuche); modernizing of production is necessary.

Igelit and latex flat belts (Flachriemen): we are 20 to 30 % higher.

Hygienic hard rubber: our prices are adequate, especially for European countries.

Hygienic wares: we are about 25 to 30 % higher, but can compete if we make small reductions, because we accept payment in the currency of the respective country.

Rubber toys: prices are satisfactory; in the United States alone we are 25 % higher. Development of business is hampered by an import prohibition in force in most countries.

Textile rubber wares: we are 30 to 40 % higher.

Wound rubber thread:(Gummifaeden): 25 to 30 % higher.

Same, unwound: 15 to 20 % higher.

Textile products: 10 to 20 % higher. Our production is more expensive because we start from domestic calculation, which is meaningless from the export standpoint.

Ceramics: no export difficulties are encountered for porcelain which is offered at 30 % lower prices by competing German firms.

Chemical products: while they can compete in some markets, in others they are 10 to 40 % higher. If we cannot compete in price, still we can compete through rapid delivery.

Glass: despite higher prices we can compete because of better quality. France is delivering Thonhalle or Campasi model coffee glasses to Switzerland about 10 % cheaper. There are factories in France which could

produce this ware, but its price would be higher than ours if the quality were better. The Cesky Kristal Glass Works could offer this ware even at cheaper prices than the French, but has more profitable orders in Switzerland. Belgium could produce this ware even more cheaply but in lesser quantity. There is a vast body of such data from various countries for various types of glass-- glass for business purposes, cut glass, glass for illuminating and laboratory use, lead glass, painted glass, crystal, Gablonz ware, etc.
In Canada, for example, there are any number of items which can be sold and as many others which cannot. Every day new lines start up of which a part comes to nothing and others catch on. The market is always at the mercy of caprice. There is a steady demand only for sheet glass and bottles, prices of which also remain unaltered.

Typewriter ribbons: about 20 to 25 % higher. In eastern and south-eastern countries our prices are acceptable.

Carbon paper, duplicating stencils (Matrizen) and paints: export prices are higher because of the great expense of necessary raw materials, which cost 600 to 800 % more in Switzerland than in the United States.

Quality pencils: no export difficulties encountered.

Middle-priced and cheap pencils: our prices are about 25 to 35 % higher for the same reasons as for carbon paper.

Montan wax: there is a considerable rivalry from the German production which is 30 % cheaper. Another difficulty for the American market lies in the fact that the American consumers have accustomed themselves to synthetic substitutes for montan wax.

Mineral colors: 20 to 80 % higher.

Walnut finish: high price. As a result of German deliveries, ours had to be marked down from a basic price of 730 Kcs., f.o.b. to the frontier, to 550 Kcs.

Ceramic glazes and frits: Our prices are much higher because of expensive raw materials.

Calcium carbide: 30 to 40 % higher.

Chemical products for the metal industry: tempering salts are 18 % more expensive

Borax: 50 % higher.

Artificial gut: 20 % higher prices because of tariff increases.

Leather body colors: 20 to 30 % higher.

Brewery pitch: not profitable to export because of Swiss competition.

Accessories for the shoe industry: no hope for export because of high cost of raw materials.

Disinfectant tablets: export prices cannot compete because of the increase in cost of alum.

Eau de Cologne: prices still meet competition. But recently duties have been raised on cosmetics in some countries.

Casein, paste (Kleister): disadvantageous purchase of raw materials governs our high prices.

Albumin: Able to compete, but exports are limited because of lack of raw materials.

Lactic acid: encounters competition abroad from more favorable prices, but our rapid delivery time permits export.

Charcoal: competitors' prices are so low that the goods cannot be turned out even for domestic consumption, let alone exported.

Pyrotechnic goods and Roman candles: although our prices are 10 to 15 % higher, we can still compete in some countries.

The Tendency of our Price Policy

In the system of planned economy, price has become a significant tool of economic and social policy; through prices, the intensity of production and the amount of consumption can be influenced.

The execution of such organized attacks demands unconditionally a knowledge of the entire economic situation and the trends of development. The tendency of our price policy to date has proceeded in the effort to maintain in operation the established price index, which corresponds roughly to three times the price index of 1939, and which, in comparison to other indices, can be regarded as fixed.

Up to the present, three methods have been employed in directing price policy.

a. Establishment of fixed prices which the producer cannot alter; standardization of most essential items of daily need.

b. Maximum prices which may not be exceeded, although sales are permissible below this limit.

c. Autonomous prices which were set up for the majority of products; according to this method, systematic tables were set up which the producer is obliged to make use of in determining his selling price. Prices are subject to check by price-control agencies. This method does not outlaw price increase and is neither popular nor particularly economical, since raw materials are wasted; nevertheless, it creates the possibility of competition, which is desirable.

The present situation demands increase in price control which aims at the same time at economic planning; recently, a plan was adopted in respect to the quality of products, with particular emphasis on standardization of production, coupled with a notable improvement in the use of raw materials.

On the assumption that an adjustment between unprofitable prices and other prices is possible within a given enterprise, it will be possible to apply the method of autonomous prices rather closely, and sometimes, in addition, pass over to the method of maximum prices or even of fixed prices.

In general, an attempt to lower the current prices is demanded, since lowering the price level would clear up the question of pay and salary demands and incomes. Previous attempts in this direction have mostly led to a defense of the established price level, which has been particularly unsatisfactory to industrial enterprises, since the prices for some of their products are lower than the expense of production. This situation calls for immediate abandonment of the profit principle (Rentabilitaet) which governs private industry, and the beginning of production according to the principle of social remuneration (Remunerabilitaet), i.e. maintenance in some cases of production even at a loss in so far as the social importance of the product is higher than the losses indicated.

When we speak of price policy in general, it is necessary to pass immediately to the concrete establishment of prices for those of our products which constitute the essence of our export, and to the establishment of export prices which, along with quality, are the best weapons in the battle of competition in foreign markets.

In order for the exporter to set up correct prices, he must first of all start from production costs, but at the same time, if possible, take into account all data which he has derived from study and analysis of the markets in question. While the bases for cost calculation, in the light of exact determination of production costs for the enterprise, are not often subject to fluctuations, the extremely diverse conditions often obtaining in individual foreign markets have an effect on determination of export prices. A decisive influence on these prices is also exerted by transport conditions, duty, and other taxes which are leveled against imported merchandise in the various countries.

The governing principle, however, must be the overcoming of foreign competition through establishment of concrete export prices, the acquisition of necessary amounts of foreign currencies, with a concurrent effort to make a maximum profit. Considering the fact that the general economic interest in some cases will lay particular stress on the requirement of foreign currency, it is not out of the question that occasionally the condition of making a profit cannot be maintained, and perhaps even a loss may occur.

For a correct price calculation, the exporter must first determine his production calculations. This affords him a firm and secure foundation for judging whether, after figuring in further cash disbursements and profits, he is able to compete in a given market. In the case of larger export undertakings, it is necessary to substitute a double computation of profits, i.e., a production and an all-over calculation.

Export prices should be quoted in addition to packing charges. Should this not be possible, a supplementary charge figured in percentage of selling price must be cited. In determining export prices, it is necessary to avoid two mistakes:

1. The same export price is not to be set for all countries. One must be governed by characteristics of the individual markets, as well as by the special national economic interest and the importance of the foreign partner.

2. High prices should not be sought on the assumption that the foreign buyer will demand a rebate. A considered foreign exchange program excludes this method; and it is not permitted when distances are great; otherwise, an advantageous business transaction might be lost.

Since the exporter, in calculating his export prices, has to start by calculating his production, this must be regarded more closely. It must be observed in general, first of all, that production exerts a greater pressure on raising of prices than the reverse. The complete determination of industrial prices is an encounter of two forces and interests of various factors. On the one hand, regard must be had to the factors of production which are directed toward disturbing the relations between the most important price-determining points, i.e. the level of wages and salary, which has a continually rising tendency, and the social obligations and duties, which often exceed those of before the war. Opposed to these considerations is the basic standpoint of the price determiners who defend the interest of stable prices. It is, however, worth noting in passing that an inexorable insistence on set prices would be harmful, and it is accordingly necessary to correct even the set prices according to the conditions. In order to judge the present situation correctly, it is necessary to indicate through examples how the calculation is made in some leading branches of industry, making a comparison at the same time with pre-war conditions, and estimating the proportional rise in individual price components by means of the expense index. One can divide up production expenses under the following main headings:

1. Raw materials and power
2. Salaries and social administration expenses
3. Administrative costs

See attachment for examples of calculations

It can be shown by the individual calculations cited in the attachment how the influence of the individual factors is expressed in the price determination of various industrial products. The immediate conclusion is that some variations in prices are appropriate and render possible a sound economic undertaking; on the contrary, production cannot be satisfied with other prices, because they are not profitable enough or not profitable at all, and it is interesting that, in general, more inappropriate prices turn up within the group of maximum prices. In some cases, e.g. coal, not even a price subsidy can overcome the passivity of mining operations, for price subsidy covers barely a third of the losses, and the only relief possible is through the raising of individual output, where only 80 % production has been hitherto achieved, as well as through increased mechanization of mining operations, creation of greater export, and possibly through a definitive termination of price subsidy.

The price policy must consider this, for otherwise the existing disparities in the present status of production will increase still more, until they become real depreciation (valorisierte Abschreibungen), which would then signify an increase by three to five times in this factor. Up to the present, the majority of business enterprises have continued depreciation costs on the basis of pre-war values. In this connection, it must be observed that prices for our coal are far below the normal European prices (50% of the Belgian and 60 % of the English prices). Likewise in the foundries, the average state of foundry production expenses, if the year 1937 is taken as 100, would figure as 250, while the price index for the present selling prices of foundry products averages 220, and is consequently 130 less. It is natural that such a disparity brings with it unsatisfactory balances, and shatters the operation of the enterprise. There is the further question of the price of power: it can be briefly stated that the economy of the electrical works turns up with a slight gain while the gas works are operated at a loss. This was a short sketch of the results of calculation for key industries. It is necessary to draw still further conclusions from the other forms of industry. Thus the paper industry has many unprofitable products like cellulose, soda paper (Natronpapier) for cement sacks, some wrapping papers, etc. This is understandable in a section of industry in which raw material, i.e. wood, has a price index of 370, a wage index calculated at 500, and in which there is an increased demand for cheaper fuels, while the price index of the products varies between 200 and 270; it may be remarked in passing that depreciation costs from the pre-war period are being gradually written off here, which will exert still further influence on price increase. The situation can be improved through realization of new export possibilities at suitable prices, as well as through a better organization of production (Rationalisierung) and increased capacity.

Also, in the glass industry, certain products are made at a loss, such as glass for electrical illumination, cast glass (Gussglas), glass for preserving foodstuffs, etc. It must be noted that some of the current prices on the domestic market amount to less than three times the pre-war level, or barely reach half the pre-war level: enamelled glass, half liter beer steins, preserve glasses, etc. Up to the present, unprofitable prices on the domestic market have been balanced by prices gained in export. The policy of two types of prices, however, one for domestic and one for export purposes, cannot be maintained permanently, particularly since export prices are beginning to indicate a tendency to come down.

In the other sections of industry—metal, chemical, wood-working, textile, leather-working - price determination is carried out through maximum prices or autonomous prices, with the latter predominating. In many cases the method of autonomous prices was responsible for considerable gains.

It can be said in general, on the basis of the analysis carried out for the various branches of industry, that price policy is concerned with:

a. losing prices

b. economically sound prices

c. prices bringing in excessive profits.

Conformity and compensation count among the tasks of price policy, which can be solved only through cooperation of all organs which have an influence on

the proper determination of individual expenditures. Since the entire onus of this production question lies outside the sphere of action of the Ministry of Foreign Trade, particular attention must be paid to those matters of concern which fall within the purviews of foreign trade, which means particularly raw material.

The question of prices for industrial raw materials is only to a slight degree a matter for domestic price determination, for it is mainly dependent upon world markets. Dependence upon raw materials affects purchase and import of about thirty industrial raw materials, the majority of which must be imported in toto from abroad. Since this question is one of the most important for our production and since it lies outside the realm of our influence, it is necessary to give an exact synopsis of its development, so that this development may indicate exact characteristics and may be correctly estimated in the course of further price policy.

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APPENDIX

25X1A [redacted] Comment: Totals are incorrect in many cases.)

Examples of calculations

Foundry calculation: expenses incurred in processing rolled sheet iron with a total weight of one ton:

Expense	1938 Kcs.	%	1947 Kcs.	%	Expense Index
Production & overhead, wages	167.60	28.6	814.71	39.9	486
Fuel, power	149.10	25.5	294.70	14.4	198
Salaries	11,60	2.	44.14	2.2	381
Social administrative expenses	54.20	5.8	201.64	9.2	590
Maintenance	106.50	18.2	311.38	15.2	290
Depreciation	42.30	7.2	39.75	1.9	94
Other expenses	74.10	12.7	335.89	16.5	453
Totals	585.40	100	2042.21	100	394

Metal Production calculation: Expenses in production of an automobile

Expenses	1938 Kcs.	Expense Index	1947 Kcs.	Expense Index
Material, overhead	24,690	100	98,452	399
Individual wages	5,840	100	13,250	227
Salaries	5,237	100	14,160	269
Social administrative expenses	838	100	3,674	439
Other overhead	5,092	100	10,798	212
Accessory materials	1,210	100	3,100	256
Price of production	42,907	100	143,290	334

Calculations for shoe industry, men's working shoes

Expenses	1937 Index	%	1947 Index	%
Material	100	47	620	52
Production salaries	100	10	387	7
Production overhead	100	7	724	9
Administrative overhead	100	30	497	25
Totals	100	100	569	100

Subsidy